

**Otsego District Public Library
Otsego, Michigan**

**Annual Financial Statements
and
Auditors' Report**

December 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Otsego District Public Library	County Kalamazoo
Fiscal Year End December 31, 2005	Opinion Date January 19, 2006	Date Audit Report Submitted to State August 1, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

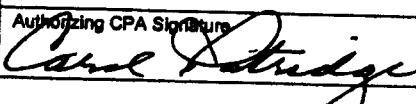
We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	There is no letter of comments and recommendations for the year ended 2005.	
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 269-329-7007		
Street Address 710 E. Milham		City Kalamazoo	State MI	Zip 49002
Authorizing CPA Signature 		Printed Name Carol A. Patridge, CPA		License Number 1101019740

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Otsego District Public Library
Otsego, Michigan
Members of the Library Board and Administration
December 31, 2005

MEMBERS OF THE LIBRARY BOARD

Donna Beach	President
John Chapman	Vice President
Diana Gilmer	Treasurer
Nancy Seibert	Secretary
Renny Ransbottom	Trustee
Sharon Tans	Trustee

ADMINISTRATION

Ryan Wieber	Librarian
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Independent Auditors' Report

Members of the Library Board
Otsego District Public Library
Otsego, Michigan

We have audited the accompanying financial statements of governmental activities and each major fund of Otsego District Public Library as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Otsego District Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Otsego District Public Library as of December 31, 2005 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements but supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Otsego District Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Yeo & Yeo, P.C.

Kalamazoo, Michigan

January 19, 2006

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2005

This section of the Otsego District Public Library annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2005. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds – the General Fund and the Capital Projects Funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2005

Reporting the Library as a Whole – Government-wide Financial Statements

The statement of net assets and the statement of activities, which appear first in the Library's financial statements, report information about the Library as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the Library's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the Library's financial health, or position. Over time, increases or decreases in the Library's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's goal is to provide services to our patrons, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided to assess the overall health of the Library.

The statement of net assets and statement of activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes, unrestricted State aid, and penal fines finance most of these activities.

Reporting the Library's Funds – Fund Financial Statements

The Library's fund financial statements provide detailed information about the Library's funds – not the Library as a whole. Some funds are required to be established by State law. The Library establishes funds to help it control and manage money for particular purposes and to show that it's meeting its legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental funds – All of the Library's services are reported in Governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2005

The Library as a Whole

Recall that the statement of net assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library's net assets as of December 31, 2005.

TABLE 1

	Governmental Activities
Assets	
Current assets	\$ 852,011
Property and equipment, net	<u>330,602</u>
Total assets	<u>1,182,613</u>
Liabilities	
Current liabilities	<u>4,687</u>
Total liabilities	<u>4,687</u>
Net Assets	
Invested in property and equipment – net	330,602
Restricted	143,889
Unrestricted	<u>703,435</u>
Total net assets	\$ <u><u>1,177,926</u></u>

The above analysis focuses on the net assets.

The results of this year's operations for the Library as a whole are reported in the statement of activities (see Table 2), which shows the sources of revenue for the year 2005.

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2005

TABLE 2

	Governmental <u>Activities</u>
Revenue	
Property taxes	\$ 346,284
State aid	11,841
Penal Fines	72,631
Other revenue	<u>51,233</u>
 Total Revenue	 481,989
 Functions/Program Expenses	
Library services	<u>365,767</u>
 Excess (deficiency) of revenues over expenditures	 \$ <u><u>116,222</u></u>

Property taxes for operations and penal fines constitute the vast majority of Library's operating revenue sources. The Library Board and librarian must annually evaluate the needs of the Library and balance those needs with other available unrestricted resources.

The Library as a Whole

The Library's net assets increased \$116,222 in 2005. The main reasons for the increase were due to the capital campaign initiative for a new building and to the continued growth of the Library's property tax base.

The Library's primary source of revenue is from property taxes, which represents 72% of total revenue. 2005 property tax revenue increased by 6% compared to 2004. Penal fine revenue exceeded budgeted expectations by 21%, and state aid revenues decreased slightly. Interest on investments was \$16,753, 120% higher than expected, and contributions and donations (cash and pledges) for the year totaled \$22,134.

Salaries and fringes continue to be a significant expense, representing 52% of the Library's total expenses.

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2005

The Library's Fund

An analysis of the Library's major funds is included on pages 4-3 and 4-5, in the first column. The fund column provides detailed information about the most significant funds – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities such as the Library's current capital campaign fund, listed as "Capital Projects Fund."

The fund balance of the General Fund increased during 2005 by \$95,600.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. These budget amendments occurred in various accounts, but were not significant.

Capital Assets Administration

Capital Assets

At December 31, 2005, the Library had \$330,602 invested in capital assets, including land, buildings, and furniture and equipment in accordance with its capitalization policy. Amounts under \$1,000 are not included herein.

	<u>2005</u>
Assets not being depreciated – Land	\$ 189,735
Building and building improvements	39,380
Equipment and furniture	76,749
Library books	<u>505,100</u>
Total capital assets	810,964
Less accumulated depreciation	<u>(480,362)</u>
Net capital assets	\$ <u><u>330,602</u></u>

**Otsego District Public Library
Management's Discussion and Analysis
December 31, 2005**

Next Year's Millage Rate

In August 2006, the Library Board will consider the millage rate to be levied for Winter 2006 (these revenues will be received and recorded in fiscal year 2007). The 2005 rate is .9888 mills per thousand dollars of taxable value.

Contacting the Library's Financial Management

This financial report is designed to provide the Library's citizens, taxpayers, customers, investors, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library at 219 South Fenner Street, Otsego, MI 49078.

Otsego District Public Library
Statement of Net Assets
December 31, 2005

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash	\$ 358,717
Investments	405,676
Due from other governments	3,985
Total current assets	<u>768,378</u>
Noncurrent assets	
Capital assets	
Land	189,735
Building and improvements	39,380
Equipment and furniture	76,749
Library books	505,100
Less: accumulated depreciation	<u>(480,362)</u>
Total noncurrent assets	<u>330,602</u>
Total assets	<u>1,098,980</u>
Liabilities	
Current liabilities	
Salaries and benefits payable	<u>4,687</u>
Net Assets	
Invested in capital assets	330,602
Restricted for:	
Capital projects	60,256
Unrestricted	<u>703,435</u>
Total net assets	\$ <u><u>1,094,294</u></u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Statement of Activities
For the Year Ended December 31, 2005

Revenue

Property taxes	\$ 346,284
State aid	11,841
Penal fines	72,631
Interest on investments	16,653
Contributions and donations	40,541
Library fines and fees	10,699
Other miscellaneous	1,747
Total revenue	<u>500,396</u>

Expenses

Advertising	8,872
Conferences, workshops, and travel	1,743
Co-op expense	3,260
Insurance	5,291
Library books and materials	22,588
Miscellaneous	9,598
Professional fees	10,385
Repair and maintenance	9,495
Salaries and fringe benefits	192,943
Supplies	17,288
Technology	16,235
Utilities	19,590
Depreciation	48,479
Total expenditures	<u>365,768</u>

Change in Net Assets

134,628

Net Assets - beginning of year

1,061,704

Net Assets - end of year

\$ 1,196,332

See Accompanying Notes to Financial Statements

Otsego District Public Library
Balance Sheet - Governmental Funds
December 31, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash	\$ 297,197	\$ 61,520	\$ 358,717
Investments	405,676	-	405,676
Due from other governments	3,985	-	3,985
Due from other funds	1,264	-	1,264
	<u>708,122</u>	<u>61,520</u>	<u>769,642</u>
Total assets	\$ <u>708,122</u>	\$ <u>61,520</u>	\$ <u>769,642</u>
Liabilities and Fund Balance			
Liabilities			
Salaries and benefits payable	\$ 4,687	\$ -	\$ 4,687
Due to other funds	-	1,264	1,264
Total liabilities	<u>4,687</u>	<u>1,264</u>	<u>5,951</u>
Fund Balance			
Reserved for capital projects	-	60,256	60,256
Designated for capital improvements	28,252	-	28,252
Designated for property investments	452,504	-	452,504
Designated for memorial and donations	3,606	-	3,606
Undesignated	219,073	-	219,073
Total fund balance	<u>703,435</u>	<u>60,256</u>	<u>763,691</u>
Total liabilities and fund balance	\$ <u>708,122</u>	\$ <u>61,520</u>	\$ <u>769,641</u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets
December 31, 2005

Total fund balances for governmental funds	\$	763,691
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Total net assets reported for governmental activities in the statement of net assets is different because:

Pledges receivable - net of discount, unavailable at December 31, 2005 for governmental fund purposes		83,633
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	189,735	
Buildings and improvements		39,380	
Equipment and furniture		76,749	
Library books		505,100	
Less: accumulated depreciation		<u>(480,362)</u>	<u>330,602</u>

Net assets of governmental activities	\$	<u><u>1,177,926</u></u>
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Otsego District Public Library
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2005

	General Fund	Capital Projects	Total Governmental Funds
Revenues			
Property taxes	\$ 346,284	\$ -	\$ 346,284
State aid	11,841	-	11,841
Penal fines	72,631	-	72,631
Interest on investments	15,888	765	16,653
Contributions and donations	4,885	35,656	40,541
Library fines and fees	10,699	-	10,699
Other miscellaneous	1,747	-	1,747
Total revenues	<u>463,975</u>	<u>36,421</u>	<u>500,396</u>
Expenditures			
Advertising	8,872	-	8,872
Conferences, workshops, and travel	1,743	-	1,743
Co-op expense	3,260	-	3,260
Insurance	5,291	-	5,291
Library books and materials	57,688	-	57,688
Miscellaneous	9,598	-	9,598
Professional fees	10,385	-	10,385
Repair and maintenance	9,495	-	9,495
Salaries and fringe benefits	192,943	-	192,943
Supplies	13,932	3,356	17,288
Technology	19,721	-	19,721
Utilities	19,590	-	19,590
Capital outlay	15,857	-	15,857
Total expenditures	<u>368,375</u>	<u>3,356</u>	<u>371,731</u>
Excess of revenues over expenditures	95,600	33,065	128,665
Fund balance - beginning of year as previously reported	607,835	129,231	737,066
Prior period adjustment	-	(102,040)	(102,040)
Fund balance, beginning of year as restated	<u>607,835</u>	<u>27,191</u>	<u>635,026</u>
Fund balance - ending	<u>\$ 703,435</u>	<u>\$ 60,256</u>	<u>\$ 763,691</u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds \$ 110,258

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 54,443	
Depreciation expense	<u>(48,479)</u>	5,964

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds

Pledges receivable		<u>12,443</u>
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Change in net assets of governmental activities \$ 128,665

Otsego District Public Library
Notes to Financial Statements
December 31, 2005

Note 1 - Nature of Organization And Summary of Significant Accounting Policies

The accounting policies of Otsego District Public Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Library's significant accounting policies.

Reporting Entity

The Library is located in the City of Otsego, Michigan and is governed by an appointed six-member board. The Library is primarily funded through a tax levy, fines and fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the

year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts (1) invested in capital assets, net of related debt (2) restricted net assets, and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related

Otsego District Public Library
Notes to Financial Statements
December 31, 2005

to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and penal fines associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The *Capital Projects Fund* is used to account for resources for the acquisition or construction of capital facilities or equipment by the Library.

Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March

1st of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated assets are reported at an estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 – 50 years
Furniture and equipment	5 – 10 years
Improvements	10 – 20 years

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Comparative Data

Comparative data is not included in the Library's financial statements.

Otsego District Public Library
Notes to Financial Statements
December 31, 2005

Note 2 - Stewardship, Compliance, Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The appropriation level adopted by the Board is the level of control authorized under the Act. State law requires the Library to have its budget in place by November 1. A library is not considered in violation of the Act if reasonable procedures are in use by the library to detect violations.

Budgeted amounts are as originally adopted, or as amended by the Library Board throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at year end and therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

Note 3 - Deposits And Investments

Michigan Compiled Laws, Section 129.91 authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Library is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any

of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated five banks for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, mutual funds, and investment pools that are composed of authorized investment vehicles.

At yearend, the Library's deposits and investments were reported in the financial statements in the following category:

Governmental Activities	<u>\$ 764,393</u>
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The breakdown between deposits and investments for the Library is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 358,717
Investments in securities, mutual funds and similar vehicles	<u>405,676</u>
Total	<u>\$ 764,393</u>

The deposits of the Library were reflected in the accounts of financial institutions at \$365,565 of which \$302,230 is covered by federal depository insurance, and \$63,335 is covered by the securities investor protection corporation.

Otsego District Public Library
Notes to Financial Statements
December 31, 2005

Note 4 - Unconditional Promises To Give

During the year ended December 31, 2004, Otsego District Public Library began a capital campaign and received pledges for the construction of a new library. The amount of pledges outstanding at December 31, 2005 is as follows:

Gross contributions receivable	\$ 94,831
Less: Unamortized discount on future contributions	<u>(11,198)</u>
Contributions receivable, net	<u>\$ 83,633</u>

Gross contributions receivable at December 31, 2005 are due according to the following schedule:

Less than one year	\$ 61,956
One to five years	<u>32,875</u>
Total gross contributions receivable	<u>\$ 94,831</u>

Note 5 - Conditional Promises To Give

As of December 31, 2005, the Library has been promised \$75,000 from contributors. They will receive this promise if they successfully pass a bond millage to construct a new library.

Note 6 - Capital Assets

A summary of the changes in capital assets is as follows:

	January 1, 2005	Additions	Deletions	December 31, 2005
Assets not being depreciated				
Land	\$ 189,735	\$ -	\$ -	\$ 189,735
Other capital assets				
Buildings and improvements	39,380		-	39,380
Furniture and equipment	57,406	19,343	-	76,749
Library books	<u>470,000</u>	<u>35,100</u>	-	<u>505,100</u>
Subtotal	756,521	54,443	-	810,964
Accumulated depreciation	<u>(431,883)</u>	<u>(48,479)</u>	-	<u>(480,362)</u>
Net book value	<u>\$ 324,638</u>	<u>\$ 5,964</u>	<u>\$ -</u>	<u>\$ 330,602</u>

Depreciation for the year ended December 31, 2005 amounted to \$48,479.

Note 7 - Interfund Receivable And Payable

Individual interfund receivable and payable balances at December 31, 2005 were:

Fund	Receivable	Payable	Purpose
General Fund	\$ 1,264	\$ -	Reimbursement for capital campaign expenditures
Capital Projects Fund	-	1,264	Reimbursement for capital campaign expenditures paid by General Fund
	<u>\$ 1,264</u>	<u>\$ 1,264</u>	

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Otsego District Public Library
Notes to Financial Statements
December 31, 2005

Note 8 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The Library has purchased commercial insurance for the protection of real and personal property. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

Note 9 - Retirement Plan

Plan Description

The Library has instituted a defined contribution pension plan through the City of Otsego for all full-time employees with six months of service. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service. Normal retirement is age 65, with early retirement privileges commencing at age 55. There is no mandatory retirement age.

The Library's covered payroll and its total current payroll for all employees amounted to \$79,046 and \$151,447 respectively in the year ended December 31, 2005.

Contributions Required and Made

Covered employees of the Library are provided a contribution of ten percent. For the year ended December 31, 2005 the Library forwarded to the City of Otsego \$7,904

Funding Policy and Status

The Library funds the plan monthly and as of December 31, 2005 no unfunded past service costs existed.

Note 10 - Fund Equity

Specific reservations on fund equity include:

Reserved for capital projects – This reserve was created to restrict the use of all resources earned by the Capital Projects Fund. This money is earmarked for major capital purchases.

Specific designations include the following:

Designated for capital improvements – This designation was created to indicate funds set aside to cover capital improvements.

Designated for property investments – This designation was created to indicate funds set aside for major real property purchases and expenses associated with the purchase of real property.

Designated for memorials and donations – This designation was created to indicate funds set aside for memorials and donations that are donor-restricted.

Note 11 - Assets Held By Allegan County Community Foundation

During 1999, the Otsego District Public Library Irene Galloway Fund was established at the Allegan County Community Foundation. This is an endowment fund and the principal is not expendable. Net income from the fund is reinvested as spendable income. As of December 31, 2005 the fund had a balance of \$5,628 and there were no funds in the spendable fund.

Otsego District Public Library
Notes to Financial Statements
December 31, 2005

Note 12 - Prior Period Adjustment

Retained earnings at the beginning of 2005 have been adjusted to correct an error made in 2004. The Governmental funds incorrectly included pledges receivable but not collected within 60 days. Had the error not been made, net income for 2004 would have been decreased by \$102,040.

Otsego District Public Library
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Property taxes	\$ 337,000	\$ 337,000	\$ 346,284	\$ 9,284
State aid	11,500	11,500	11,841	341
Penal fines	60,000	60,000	72,631	12,631
Interest on investments	7,000	7,000	15,888	8,888
Contributions and donations	-	-	4,885	4,885
Library fines and fees	7,700	7,700	10,699	2,999
Other miscellaneous	-	-	1,747	1,747
Total revenues	<u>423,200</u>	<u>423,200</u>	<u>463,975</u>	<u>40,775</u>
Expenditures				
Advertising	5,700	8,514	8,872	358
Conferences, workshops, and travel	1,800	1,873	1,743	(130)
Co-op expense	3,300	3,300	3,260	(40)
Insurance	5,000	5,000	5,291	291
Library books and materials	54,050	55,726	57,688	1,962
Miscellaneous	6,550	6,561	9,598	3,037
Professional fees	31,400	31,400	10,385	(21,015)
Repair and maintenance	10,870	10,945	9,495	(1,450)
Salaries and fringe benefits	195,005	195,306	192,943	(2,363)
Supplies	6,325	6,674	13,932	7,258
Technology	19,400	19,400	19,721	321
Utilities	19,100	19,100	19,590	490
Capital outlay	64,700	64,791	15,857	(48,934)
Total expenditures	<u>423,200</u>	<u>428,590</u>	<u>368,375</u>	<u>(60,215)</u>
Excess (deficiency) of revenues over expenditures	-	(5,390)	95,600	100,990
Fund balance - beginning	<u>607,835</u>	<u>607,835</u>	<u>607,835</u>	-
Fund balance - ending	<u>\$ 607,835</u>	<u>\$ 602,445</u>	<u>\$ 703,435</u>	<u>\$ 100,990</u>